

ANNUAL FINANCIAL REPORT

of the

**MAGNOLIA
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2016

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Magnolia Independent School District

Name of School District

Montgomery

County

170-906

Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2016, at a meeting of the Board of Trustees of such school district on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):

(attach list as necessary)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Magnolia Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Magnolia Independent School District (the "District"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Governmental
Audit Quality Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of District contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
November 30, 2016

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2016

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Magnolia Independent School District (the "District") for the year ending August 31, 2016. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2016 was \$46,936,659.
- For the fiscal year ended August 31, 2016, the District's general fund reported a total fund balance of \$28,223,220, which is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$122,327,433.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- The *proprietary fund* statements provide information about services provided to parties inside the District. The proprietary funds include the District's internal service funds.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

Governmental Activities – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detail information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds* – These funds include the internal service funds. The District's natatorium, aquatic club, health plan, and workers' compensation fund activities are reported in the internal service funds and are shown in a separate statement of net position and a statement of changes in fund net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities that are reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$46,936,659 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$2,664,204 in net position from the prior year. *Table 1* indicates the overall condition of the District increased, which was the result of an increase in property taxes and foundation revenue. *Table 2* reflects the District reporting an increase in total revenue of \$13,789,771, which was a result of an increase in property tax and grants and contributions that are not restricted. Additionally, the District reported an increase in total expenses of \$18,949,133 primarily due to an increase in instruction expense.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Table 1
Net Position

| Description | Governmental Activities | | Total Change |
|---|-------------------------|----------------------|---------------------|
| | 2016 | 2015 | 2016-2015 |
| Current assets | \$ 128,259,072 | \$ 37,733,163 | \$ 90,525,909 |
| Capital assets | 159,195,334 | 156,784,977 | 2,410,357 |
| Total Assets | 287,454,406 | 194,518,140 | 92,936,266 |
| Deferred charge on refunding | 6,743,278 | 6,689,747 | 53,531 |
| Deferred outflows - pensions | 14,447,614 | 1,915,470 | 12,532,144 |
| Total Deferred Outflows of Resources | 21,190,892 | 8,605,217 | 12,585,675 |
| Current liabilities | 3,666,024 | 790,653 | 2,875,371 |
| Long-term liabilities | 254,016,399 | 154,943,828 | 99,072,571 |
| Total Liabilities | 257,682,423 | 155,734,481 | 101,947,942 |
| Deferred inflows - pensions | 4,026,216 | 3,116,421 | 909,795 |
| Total Deferred Inflows of Resources | 4,026,216 | 3,116,421 | 909,795 |
| Net Position: | | | |
| Net investment in capital assets | 19,931,360 | 20,726,907 | (795,547) |
| Restricted | 9,167,482 | 7,579,275 | 1,588,207 |
| Unrestricted | 17,837,817 | 15,966,273 | 1,871,544 |
| Total Net Position | \$ 46,936,659 | \$ 44,272,455 | \$ 2,664,204 |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Table 2
Changes in Net Position

| | Governmental Activities | | Total Change |
|---|----------------------------|----------------------|---------------------|
| | 2016 | 2015 | 2016-2015 |
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 2,475,021 | \$ 3,363,893 | \$ (888,872) |
| Operating grants and contributions | 2,978,348 | 7,448,632 | (4,470,284) |
| General revenues: | | | |
| Property taxes | 68,975,011 | 62,273,968 | 6,701,043 |
| Grants and contributions not restricted | 62,185,698 | 48,854,854 | 13,330,844 |
| Investment earnings | 164,588 | 220,775 | (56,187) |
| Miscellaneous local and intermediate revenue | 945,976 | 1,772,749 | (826,773) |
| Total Revenue | 137,724,642 | 123,934,871 | 13,789,771 |
| Expenses | | | |
| Instruction | 73,802,290 | 64,451,311 | 9,350,979 |
| Instructional resources and media services | 1,125,007 | 1,031,534 | 93,473 |
| Curriculum and staff development | 879,211 | 175,645 | 703,566 |
| Instructional leadership | 1,289,935 | 2,504,448 | (1,214,513) |
| School leadership | 6,274,680 | 5,554,578 | 720,102 |
| Guidance, counseling, and evaluation services | 5,548,409 | 3,825,762 | 1,722,647 |
| Social work/health services | 1,049,390 | 978,672 | 70,718 |
| Student (pupil) transportation | 7,599,936 | 6,141,365 | 1,458,571 |
| Food services | 5,650,793 | 5,120,616 | 530,177 |
| Co-curricular/extracurricular activities | 3,802,423 | 3,431,451 | 370,972 |
| General administration | 3,377,151 | 2,902,519 | 474,632 |
| Plant maintenance and operations | 13,264,451 | 11,529,260 | 1,735,191 |
| Security and monitoring | 724,386 | 667,439 | 56,947 |
| Data processing services | 3,161,901 | 1,744,317 | 1,417,584 |
| Interest on long-term debt | 7,510,475 | 6,052,388 | 1,458,087 |
| Total Expenses | 135,060,438 | 116,111,305 | 18,949,133 |
| Change in Net Position | 2,664,204 | 7,823,566 | (5,159,362) |
| Beginning net position | 44,272,455 | 36,448,889 | 7,823,566 |
| Ending Net Position | \$ 46,936,659 | \$ 44,272,455 | \$ 2,664,203 |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2016, the District's governmental funds reported a combined fund balance of \$122,327,433. This compares to a combined fund balance of \$35,609,419 at August 31, 2015. The fund balance in the general fund increased due to an increase in local and intermediate sources revenue. The debt service fund balance increased in the current year by \$1,099,568. This is due to an increase in property tax revenue for the debt service fund. The capital projects fund balance increased by \$83,210,457 in the current year mainly due to the issuance of bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2016, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by \$2,815,032 and the budgeted expenditures exceeded actual expenditures by \$1,576,604.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2016, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2016, the District had a total of \$159,195,334 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This total includes \$6,593,774 invested during the fiscal year ended August 31, 2016.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had \$203,435,000 in general obligation bonds outstanding versus \$131,025,000 last year. The District paid \$17,015,000 toward the principal. The District sold series 2016 bonds in the amount of \$89,425,000 during the year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in establishing the District's budget for 2016-17:

- The District's student enrollment growth trended upwards in the 15-16 school year with final Refined ADA up 345 students, or approximately 3%, versus the previous year. For budgetary purposes, the anticipated increase for 16-17 is approximately 241 students or 2.0% which is well below the three year average. Should enrollment not meet the projected pace, district officials will be prepared to respond.
- 2016-17 is the second year under the current state funding system. Thus, there are no funding component changes versus 2015-16. As a reminder, the basic allotment was increased \$100 per student for 2015-16 (but no additional increase for 2016-17).
- Approximately 16 new employee positions were created based on need for the 16-17 school year.
- In an attempt to remain competitive with surrounding districts in terms of attracting and retaining the best and brightest talent, all employees received a 4% raise for 16-17. Additionally, the first year teacher pay was increased by \$1,500 to \$49,500.
- The District's 2016 certified net taxable value for ad valorem tax purposes is \$5,684,792,497 or \$326,573 per WADA. This represents an increase in net taxable value of approximately \$577,535,580 or 11% versus the previous tax year. The District's M&O rate for 2016-17 is \$1.06 and I&S is \$0.3195 resulting in a total tax rate of \$1.3795 per \$100 valuation which is the same total tax rate as the previous tax year (after multiple years of tax rate decrease).
- The District continues to participate in the state's TRS Active Care program for health insurance coverage for employees. The district contributes \$275 per month for employee health insurance. In addition to health insurance, the district provides \$10,000 of life insurance coverage to full-time employees at no cost to the employee. Supplemental insurance is offered from variously selected vendors based on cost savings and plan details as chosen after competitive procurement by District administration.
- The District once again received a "Superior Achievement" for an "A" rating, including a score of 96/100, on the T.E.A.'s School FIRST accountability rating system (for Fiscal '15).
- The sixth year of the Texas Comptroller's FAST (Financial Allocation Study for Texas; now under Texas Smart Schools.org) report yielded extremely positive results for Magnolia ISD. Out of a possible 5 stars, MISD scored 4.0. Additionally, MISD scored a perfect 10 out of 10 (with a designation of "very low spending versus peers") on the financial indicator of the test which compares a district's expenditures within an assigned peer group.
- In the summer of 2016 in preparation of the 16-17 school year budget and for the first time in the district's history, MISD was labeled as a Chapter 41 school district by the Texas Education Agency. While this is something to certainly keep an eye on for the future, at this lower equalized wealth level, the district is not currently subject to recapture (not accessing any pennies of tax effort at the 3rd EWL which would require the district to send dollars back to the state).
- The district is governed by a well-trained, informed, dedicated, and student-focused Board of Trustees and administrative staff.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

District officials were conservative with budgetary estimates as budget philosophies have remained consistent. As stated, projected student growth was conservatively based on 2%. Officials also remained conservative with large ticket budgetary items such as electricity and fuel costs. The District adopted a balanced General Fund budget for fiscal 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Erich Morris, Director of Finance, at 31141 Nichols Sawmill Road, Magnolia, Texas 77353 or by calling (281) 356-8485.

BASIC FINANCIAL STATEMENTS

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2016

| Data Control Codes | | 1 |
|--------------------------|--|------------------------------------|
| | | <u>Governmental Activities</u> |
| | <u>Assets</u> | |
| 1110 | Cash and cash equivalents | \$ 16,590,913 |
| 1120 | Current investments | 105,935,623 |
| 1220 | Property taxes receivable (delinquent) | 2,531,579 |
| 1230 | Allowance for uncollectible taxes | (542,032) |
| 1240 | Due from other governments | 735,523 |
| 1267 | Due from other funds | 3,003,991 |
| 1410 | Prepaid items | 3,475 |
| | | <u>128,259,072</u> |
| | Capital assets: | |
| 1510 | Land | 8,825,492 |
| 1520 | Buildings, net | 145,787,517 |
| 1530 | Furniture and equipment, net | 1,312,556 |
| 1540 | Vehicles, net | 3,269,769 |
| | | <u>159,195,334</u> |
| 1000 | Total Assets | <u>287,454,406</u> |
| | <u>Deferred Outflows of Resources</u> | |
| 1700 | Deferred charge on refunding | 6,743,278 |
| 1705 | Deferred outflow - pensions | 14,447,614 |
| | | <u>21,190,892</u> |
| | <u>Liabilities</u> | |
| 2140 | Interest payable | 249,510 |
| 2170 | Due to other funds | 3,003,991 |
| 2200 | Accrued expenses | 412,523 |
| | | <u>3,666,024</u> |
| | Noncurrent liabilities: | |
| 2501 | Long-term liabilities due within one year | 9,315,000 |
| 2502 | Long-term liabilities due in more than one year | 221,914,162 |
| 2540 | Net Pension Liability | 22,787,237 |
| | | <u>254,016,399</u> |
| 2000 | Total Liabilities | <u>257,682,423</u> |
| | <u>Deferred Inflows of Resources</u> | |
| 2605 | Deferred inflows - pensions | 4,026,216 |
| | <u>Net Position</u> | |
| 3200 | Net investment in capital assets | 19,931,360 |
| | Restricted for: | |
| 3820 | State and federal programs | 2,068,085 |
| 3850 | Debt service | 6,820,261 |
| 3870 | Campus activities | 279,136 |
| 3900 | Unrestricted | 17,837,817 |
| 3000 | Total Net Position | <u>\$ 46,936,659</u> |

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2016

| Data Control Codes | Functions/Programs | 1 Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------|--|-----------------------|------------------------------|---|--|
| | | | 3 Charges for Services | 4 Operating Grants and Contributions | |
| | | | | | 6 Primary Gov. Governmental Activities |
| | Primary Government | | | | |
| | Governmental Activities | | | | |
| 11 | Instruction | \$ 73,802,290 | \$ - | \$ 734,248 | \$ (73,068,042) |
| 12 | Instructional resources | | | | |
| 12 | and media services | 1,125,007 | - | (35,607) | (1,160,614) |
| 13 | Curriculum/instructional | | | | |
| 13 | staff development | 879,211 | - | (268) | (879,479) |
| 21 | Instructional leadership | 1,289,935 | - | (89,620) | (1,379,555) |
| 23 | School leadership | 6,274,680 | - | (438,396) | (6,713,076) |
| 31 | Guidance, counseling, and | | | | |
| 31 | evaluation services | 5,548,409 | - | 7,833 | (5,540,576) |
| 33 | Health services | 1,049,390 | - | (55,499) | (1,104,889) |
| 34 | Student (pupil) transportation | 7,599,936 | - | (113,524) | (7,713,460) |
| 35 | Food services | 5,650,793 | 1,572,566 | 3,008,694 | (1,069,533) |
| 36 | Extracurricular activities | 3,802,423 | 902,455 | (119,842) | (3,019,810) |
| 41 | General administration | 3,377,151 | - | (156,237) | (3,533,388) |
| 51 | Plant maintenance and operations | 13,264,451 | - | (87,473) | (13,351,924) |
| 52 | Security and monitoring services | 724,386 | - | - | (724,386) |
| 53 | Data processing services | 3,161,901 | - | - | (3,161,901) |
| 71 | Debt service - interest on | | | | |
| 71 | long term debt | 7,510,475 | - | 324,039 | (7,186,436) |
| | Total Governmental Activities | <u>\$ 135,060,438</u> | <u>\$ 2,475,021</u> | <u>\$ 2,978,348</u> | <u>(129,607,069)</u> |
| TP | Total Primary Government | <u>\$ 135,060,438</u> | <u>\$ 2,475,021</u> | <u>\$ 2,978,348</u> | <u>(129,607,069)</u> |
| General Revenues | | | | | |
| MT | Property taxes, levied for general purposes | | | | 52,135,010 |
| DT | Property taxes, levied for debt service | | | | 16,840,001 |
| GC | Grants and contributions not restricted | | | | |
| GC | for specific programs | | | | 62,185,698 |
| IE | Investment earnings | | | | 164,588 |
| MI | Miscellaneous local and intermediate revenue | | | | 945,976 |
| TR | | | | Total General Revenues | <u>132,271,273</u> |
| CN | | | | Change in Net Position | <u>2,664,204</u> |
| NB | Beginning net position | | | | <u>44,272,455</u> |
| NE | | | | Ending Net Position | <u>\$ 46,936,659</u> |

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2016

| Data Control Codes | | 10 | 50 | 60 | |
|--------------------------|--|----------------------|----------------------|--------------------------|-----------------------|
| | | General | Debt Service | Construction Projects | Other Governmental |
| | <u>Assets</u> | | | | |
| 1110 | Cash and cash equivalents | \$ 11,434,654 | \$ 69,435 | \$ 1,798,212 | \$ 2,563,298 |
| 1120 | Current investments | 16,067,512 | 9,501,316 | 80,366,795 | - |
| 1220 | Property taxes - delinquent | 1,888,660 | 642,919 | - | - |
| 1230 | Allowance for uncollectible taxes | (398,902) | (143,130) | - | - |
| 1240 | Due from other governments | 731,532 | - | - | 3,991 |
| 1260 | Due from other funds | 3,991 | - | 3,000,000 | - |
| 1410 | Prepaid items | - | - | - | 3,475 |
| 1000 | Total Assets | <u>\$ 29,727,447</u> | <u>\$ 10,070,540</u> | <u>\$ 85,165,007</u> | <u>\$ 2,570,764</u> |
| | <u>Liabilities</u> | | | | |
| 2170 | Due to other funds | \$ - | \$ 3,000,000 | \$ - | \$ 3,991 |
| 2200 | Accrued expenses | - | - | - | 198,319 |
| 2000 | Total Liabilities | <u>-</u> | <u>3,000,000</u> | <u>-</u> | <u>202,310</u> |
| | <u>Deferred Inflows of Resources</u> | | | | |
| 2600 | Unavailable revenue - property taxes | <u>1,504,227</u> | <u>499,788</u> | <u>-</u> | <u>-</u> |
| | <u>Fund Balances</u> | | | | |
| | Nonspendable: | | | | |
| 3430 | Prepaid items | - | - | - | 3,475 |
| | Restricted: | | | | |
| 3450 | Federal/state funds grant restrictions | - | - | - | 2,068,085 |
| 3480 | Debt service | - | 6,570,751 | - | - |
| 3490 | Other restrictions of fund balance | - | - | - | 296,894 |
| 3600 | Unassigned | 28,223,220 | - | 85,165,008 | - |
| 3000 | Total Fund Balances | <u>28,223,220</u> | <u>6,570,751</u> | <u>85,165,008</u> | <u>2,368,454</u> |
| 4000 | Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 29,727,447</u> | <u>\$ 10,070,539</u> | <u>\$ 85,165,008</u> | <u>\$ 2,570,764</u> |

See Notes to Financial Statements.

98
Total
Governmental
Funds

| | |
|-----------|--------------------|
| \$ | 15,865,599 |
| | 105,935,623 |
| | 2,531,579 |
| | (542,032) |
| | 735,523 |
| | 3,003,991 |
| | 3,475 |
| <u>\$</u> | <u>127,533,758</u> |

| | |
|----|------------------|
| \$ | 3,003,991 |
| | 198,319 |
| | <u>3,202,310</u> |

| | |
|--|------------------|
| | <u>2,004,015</u> |
|--|------------------|

| | |
|-----------|--------------------|
| | 3,475 |
| | 2,068,085 |
| | 6,570,751 |
| | 296,894 |
| | 113,388,228 |
| | <u>122,327,433</u> |
| <u>\$</u> | <u>127,533,758</u> |

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R

August 31, 2016

| | | |
|--|----|-------------|
| Total fund balances for governmental funds | \$ | 122,327,433 |
|--|----|-------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

| | | | |
|----------------------------------|-------------|--|-------------|
| Capital assets – non-depreciable | 8,825,492 | | |
| Capital assets – depreciable | 150,369,842 | | |
| | | | 159,195,334 |

| | | |
|---|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 2,004,015 |
|---|--|-----------|

| | | |
|--|--|---------|
| Internal service funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. | | 511,110 |
|--|--|---------|

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

| | | | |
|---|---------------|--|---------------|
| Deferred outflows - pensions | 14,447,614 | | |
| Deferred inflows - pensions | (4,026,216) | | |
| Accrued interest | (249,510) | | |
| Deferred charge on refunding | 6,743,278 | | |
| Non-current liabilities due in one year | (244,701,399) | | |
| Non-current liabilities due in more than one year | (9,315,000) | | |
| | | | (237,101,233) |

| | | |
|--|-----------|-------------------|
| Net Position of Governmental Activities | \$ | 46,936,659 |
|--|-----------|-------------------|

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2016

| Data Control Codes | | General | Debt Service | Capital Projects | Other Governmental |
|---------------------------------------|--|----------------------|---------------------|---------------------|-----------------------|
| Revenues | | | | | |
| 5700 | Local, intermediate, and out-of-state | \$ 52,620,677 | \$ 16,885,395 | 161,754 | \$ 2,475,021 |
| 5800 | State program revenues | 48,966,268 | 324,039 | - | 1,762,850 |
| 5900 | Federal program revenues | 1,222,542 | - | - | 6,812,525 |
| 5020 | Total Revenues | 102,809,487 | 17,209,434 | 161,754 | 11,050,396 |
| Expenditures | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 59,499,179 | - | 348,529 | 3,922,708 |
| 0012 | Instructional resources and | | | | |
| 0012 | media services | 889,011 | - | - | - |
| 0013 | Curriculum/instructional | | | | |
| 0013 | staff development | 872,197 | - | - | - |
| 0021 | Instructional leadership | 985,499 | - | - | 81,532 |
| 0023 | School leadership | 5,427,821 | - | - | - |
| 0031 | Guidance, counseling, | | | | |
| 0031 | evaluation services | 3,286,668 | - | 1,000,000 | 446,173 |
| 0033 | Health services | 985,222 | - | - | - |
| 0034 | Student (pupil) transportation | 6,317,630 | - | 505,143 | - |
| 0035 | Food services | - | - | - | 4,929,131 |
| 0036 | Extracurricular activities | 2,331,528 | - | - | 1,154,499 |
| 0041 | General administration | 2,944,467 | - | 45,500 | - |
| 0051 | Plant maintenance and operations | 11,715,101 | - | 303,187 | - |
| 0052 | Security and monitoring services | 610,464 | - | - | - |
| 0053 | Data processing services | 2,553,064 | - | 569,210 | - |
| Debt service: | | | | | |
| 0071 | Principal | - | 8,275,000 | - | - |
| 0072 | Interest and fiscal charges | - | 7,822,765 | - | - |
| 0073 | Bond issuance costs | - | 80,984 | 740,638 | - |
| 0081 | Capital outlay | - | - | 11,379,728 | - |
| 6030 | Total Expenditures | 98,417,851 | 16,178,749 | 14,891,935 | 10,534,043 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | 4,391,636 | 1,030,685 | (14,730,181) | 516,353 |
| Other Financing Sources (Uses) | | | | | |
| 7911 | Bonds issued | - | 8,180,000 | 81,245,000 | - |
| 7916 | Bond premium | - | 1,188,174 | 14,495,638 | - |
| 8949 | Payment to bond escrow agent | - | (9,299,291) | - | - |
| 7915 | Transfers in | - | - | 2,200,000 | - |
| 8911 | Transfers (out) | (2,500,000) | - | - | - |
| 7080 | Total Other Financing Sources (Uses) | (2,500,000) | 68,883 | 97,940,638 | - |
| 1200 | Net Change in Fund Balances | 1,891,636 | 1,099,568 | 83,210,457 | 516,353 |
| 0100 | Beginning fund balances | 26,331,584 | 5,471,183 | 1,954,551 | 1,852,101 |
| 3000 | Ending Fund Balances | \$ 28,223,220 | \$ 6,570,751 | 85,165,008 | 2,368,454 |

See Notes to Financial Statements.

**Total
Governmental
Funds**

72,142,847
51,053,157
8,035,067
131,231,071

63,770,416

889,011

872,197
1,067,031
5,427,821

4,732,841
985,222
6,822,773
4,929,131
3,486,027
2,989,967
12,018,288
610,464
3,122,274

8,275,000
7,822,765
821,622
11,379,728
140,022,578

(8,791,507)

89,425,000
15,683,812
(9,299,291)
2,200,000
(2,500,000)
95,509,521

86,718,014

35,609,419
122,327,433

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3

For the Year Ended August 31, 2016

| | |
|---|---------------|
| Net changes in fund balances - total governmental funds | \$ 86,718,014 |
|---|---------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|---|-------------|
| Depreciation | (4,183,417) |
| Capital outlay, net of disposal of assets | 6,593,774 |

| | |
|--|---------|
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | 572,505 |
|--|---------|

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

| | |
|--|--------------|
| Principal repayments | 17,015,000 |
| Accrued interest | 18,809 |
| Amortization of loss on bond refunding | 53,531 |
| Amortization of premiums | (14,059,892) |
| Amortization of accreted interest | (3,058) |

Pension activity reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure or revenue in governmental funds.

| | |
|---|--------------|
| Change in net pension liability | (12,599,622) |
| Net change related to pension deferred outflows and inflows | 11,622,349 |

Internal service funds are used by management to charge the costs of certain activities, such as student activity, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

| | |
|--|---------|
| | 341,210 |
|--|---------|

| | |
|--|---------------------|
| Change in Net Position of Governmental Activities | \$ 2,664,204 |
|--|---------------------|

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS - EXHIBIT D-1

August 31, 2016

| <u>Data Control Codes</u> | | | <u>Internal Service Funds</u> |
|-----------------------------------|---------------------------|--|-----------------------------------|
| | Assets: | | |
| 1110 | Cash and cash equivalents | | \$ 725,314 |
| | Total Assets | | <u>725,314</u> |
| | Liabilities: | | |
| | Current liabilities: | | |
| 2200 | Accrued expenses | | 214,204 |
| 2000 | Total Liabilities | | <u>214,204</u> |
| | Net Position: | | |
| 3600 | Unrestricted | | 511,110 |
| 4000 | Total Net Position | | <u>\$ 511,110</u> |

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS - EXHIBIT D-2
For the Year Ended August 31, 2016

| <u>Data Control Codes</u> | | <u>Internal Service Funds</u> |
|-----------------------------------|--------------------------------------|-----------------------------------|
| Operating Revenues: | | |
| 5700 | Local and intermediate sources | \$ 897,836 |
| 5020 | Total Operating Revenues | <u>897,836</u> |
| Operating Expenses: | | |
| 6100 | Payroll costs | 237,796 |
| 6200 | Professional and contracted services | 464,886 |
| 6300 | Supplies and materials | 47,630 |
| 6400 | Other operating costs | 106,314 |
| | Total Operating Expenses | <u>856,626</u> |
| 1100 | Operating Income | 41,210 |
| Other Financing Sources: | | |
| 7915 | Transfers in | <u>300,000</u> |
| 1200 | Changes in Net Position | 341,210 |
| 0100 | Beginning net position | <u>169,900</u> |
| 3000 | Ending Net Position | <u><u>\$ 511,110</u></u> |

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUNDS - EXHIBIT D-3

For the Year Ended August 31, 2016

| | <u>Internal Service Funds</u> |
|--|-----------------------------------|
| <u>Cash Flows from Operating Activities</u> | |
| Cash received from customers | \$ 1,186,777 |
| Cash receipts (payments) for quasi-external operating transactions with other funds | (425,237) |
| Cash payments to employees for services | (237,625) |
| Cash payments to other suppliers for goods and services | (182,705) |
| Net Cash Provided by Operating Activities | <u>341,210</u> |
| Net Increase in Cash and Equivalents | 341,210 |
| Beginning cash and cash equivalents | <u>384,104</u> |
| Ending Cash and Cash Equivalents | <u><u>\$ 725,314</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating income | \$ 341,210 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Net Cash Provided by Operating Activities | <u><u>\$ 341,210</u></u> |

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-1

For the Year Ended August 31, 2016

| <u>Data Control Codes</u> | | | <u>Total Agency Funds</u> |
|-----------------------------------|---------------------------|-------------------|-----------------------------------|
| | <u>Assets</u> | | |
| 1110 | Cash and cash equivalents | | \$ 719,940 |
| 1000 | | Total Assets | <u>\$ 719,940</u> |
| | <u>Liabilities</u> | | |
| | Current liabilities: | | |
| 2190 | Due to student groups | | \$ 719,940 |
| 2000 | | Total Liabilities | <u>\$ 719,940</u> |

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Magnolia Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by GAAP, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

The District reports the following governmental funds:

General Fund

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

Proprietary Fund Types

The proprietary funds account for services that are generally fully supported by user fees. Proprietary funds are presented on a total economic resources basis. Proprietary fund statements, like government-wide statements, provide both short and long-term information.

The District has the following types of proprietary funds:

Internal Service Funds

These funds are used to account for revenue and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the governmental activities column of the government-wide financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *"Accounting and Reporting for Certain Investments and External Investment Pools,"* the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|----------------------------|----------------------------------|
| Buildings and improvements | 10 to 50 years |
| Vehicles | 8 to 20 years |
| Equipment | 5 to 25 years |

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

7. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

The District's Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District's Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

11. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

12. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to customers for sales and services. Operating expenses for the internal service fund include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of August 31, 2016, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

external investment pools which are not subject to custodial credit risk. At year end, the District had invested:

| <u>Investments</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--|-----------------|-----------------------|
| Texpool Investment Pool | N/A | \$ 105,655,639 |
| Lone Star - Investment Pool (First Public LLC) | N/A | 80,212 |
| MBIA - Texas CLASS Investment Pool | N/A | 199,711 |
| | | <u>\$ 105,935,562</u> |

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>(Decreases)</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|---|----------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 8,825,492 | \$ - | \$ - | \$ 8,825,492 |
| Total Capital Assets Not Being Depreciated | <u>8,825,492</u> | <u>-</u> | <u>-</u> | <u>8,825,492</u> |
| Other capital assets: | | | | |
| Buildings and improvements | 189,863,465 | 4,066,887 | - | 193,930,352 |
| Furniture and equipment | 3,448,631 | 277,474 | - | 3,726,105 |
| Vehicles | 9,686,917 | 2,249,413 | - | 11,936,330 |
| Total Other Capital Assets | <u>202,999,013</u> | <u>6,593,774</u> | <u>-</u> | <u>209,592,787</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (44,577,227) | (3,565,608) | - | (48,142,835) |
| Furniture and equipment | (2,204,853) | (208,696) | - | (2,413,549) |
| Vehicles | (8,257,448) | (409,113) | - | (8,666,561) |
| Total Accumulated Depreciation | <u>(55,039,528)</u> | <u>(4,183,417)</u> | <u>-</u> | <u>(59,222,945)</u> |
| Other capital assets, net | <u>147,959,485</u> | <u>2,410,357</u> | <u>-</u> | <u>150,369,842</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 156,784,977</u> | <u>\$ 2,410,357</u> | <u>\$ -</u> | <u>159,195,334</u> |
| | | | Less associated debt | (231,172,260) |
| | | | Plus unspent bond proceeds | 85,165,008 |
| | | | Plus deferred charge on refunding | <u>6,743,278</u> |
| | | | Net Investment in Capital Assets | <u>\$ 19,931,360</u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Depreciation was charged to governmental functions as follows:

| | | | |
|-----------------------------------|--|-----------|-------------------------|
| 11 | Instruction | \$ | 2,455,328 |
| 12 | Instructional resources and media services | | 149,503 |
| 13 | Curriculum and instructional staff development | | 6,666 |
| 23 | School leadership | | 30,953 |
| 31 | Guidance, counseling, and evaluation services | | 31,100 |
| 33 | Health services | | 19,706 |
| 34 | Student (pupil) transportation | | 396,981 |
| 35 | Food service | | 351,366 |
| 36 | Cocurricular/extracurricular activities | | 105,699 |
| 41 | General administration | | 96,172 |
| 51 | Plant maintenance and operations | | 500,316 |
| 53 | Data processing services | | 39,627 |
| Total Depreciation Expense | | \$ | <u>4,183,417</u> |

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

| Governmental Activities: | Beginning Balance | Additions | (Reductions) | Ending Balance | Amounts Due Within One Year | Interest Rates |
|--|------------------------------|------------------------------|-------------------------------|------------------------------|-----------------------------------|-------------------|
| Bonds payable: | | | | | | |
| Series 2004 | \$ 750,000 | \$ - | \$ (475,000) | \$ 275,000 | \$ 275,000 | 4.00-4.50% |
| Series 2007 | 55,960,000 | - | (13,795,000) | 42,165,000 | 5,330,000 | 4.00-5.00% |
| Series 2009 | 7,555,000 | - | (950,000) | 6,605,000 | 990,000 | 3.00-4.25% |
| Series 2012 | 8,865,000 | - | (50,000) | 8,815,000 | 250,000 | 2.00-3.50% |
| Series 2013 | 57,895,000 | - | (1,675,000) | 56,220,000 | 1,755,000 | 2.00-5.00% |
| Series 2016 | - | 89,425,000 | (70,000) | 89,355,000 | 715,000 | 2.00-5.00% |
| | <u>131,025,000</u> | <u>89,425,000</u> | <u>(17,015,000)</u> | <u>203,435,000</u> | <u>* 9,315,000</u> | |
| Other liabilities: | | | | | | |
| Accreted interest | 53,845 | 3,058 | - | 56,903 | - | |
| Unamortized bond premium | 13,677,368 | 15,683,812 | (1,623,920) | 27,737,260 | * | - |
| Net pension liability | 10,187,615 | - | 12,599,622 | 22,787,237 | - | |
| Activities | <u>\$ 154,943,828</u> | <u>\$ 105,111,870</u> | <u>\$ (18,638,920)</u> | <u>\$ 254,016,399</u> | <u>\$ 9,315,000</u> | |
| Long-term liabilities due in more than one year | | | | <u>\$ 244,701,399</u> | | |
| *Debt associated with capital assets | | | | <u>\$ 231,172,260</u> | | |

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

The annual requirements to amortize debt issues outstanding at year end are as follows:

| Year Ended Aug 31 | Principal | Interest | Total Requirements |
|----------------------|-----------------------|-----------------------|-----------------------|
| 2017 | \$ 9,255,000 | \$ 9,518,547 | \$ 18,773,547 |
| 2018 | 9,710,000 | 9,487,513 | 19,197,513 |
| 2019 | 10,045,000 | 9,044,625 | 19,089,625 |
| 2020 | 10,455,000 | 8,565,475 | 19,020,475 |
| 2021 | 10,565,000 | 8,030,525 | 18,595,525 |
| 2022-2026 | 53,615,000 | 31,937,500 | 85,552,500 |
| 2027-2031 | 43,265,000 | 18,754,075 | 62,019,075 |
| 2032-2036 | 26,615,000 | 11,673,475 | 38,288,475 |
| 2037-2041 | 29,910,000 | 4,543,300 | 34,453,300 |
| | <u>\$ 203,435,000</u> | <u>\$ 111,555,035</u> | <u>\$ 314,990,036</u> |

D. Commitments Under Noncapitalized Leases

During the year, the District expended a total of \$14,822 for operating (non-capitalized) leases and, in accordance with standard non-appropriation clauses in the various lease agreements, the District has no future obligation in relation to these leases.

E. Interfund Transactions

The following is a summary of the District's interfund transactions for the year:

| | Due From Other Funds | Due To Other Funds |
|------------------------------------|-------------------------|-----------------------|
| General fund | | |
| Special revenue funds | \$ 3,991 | \$ - |
| Total General Fund | <u>3,991</u> | <u>-</u> |
| Special revenue funds | | |
| General fund | - | 3,991 |
| Total Special Revenue Fund | <u>-</u> | <u>3,991</u> |
| Debt Service Fund | | |
| Capital Projects Fund | - | 3,000,000 |
| Total Debt Service Fund | <u>-</u> | <u>3,000,000</u> |
| Capital Projects Fund | | |
| Debt Service Fund | 3,000,000 | - |
| Total Capital Projects Fund | <u>3,000,000</u> | <u>-</u> |
| Total | <u>\$ 3,003,991</u> | <u>\$ 3,003,991</u> |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|------------------------------------|---------------------|---------------------|
| General fund | | |
| Capital projects fund | \$ - | \$ 2,200,000 |
| Internal service fund | - | 300,000 |
| Total General Fund | <u>-</u> | <u>2,500,000</u> |
| Capital projects fund | | |
| General fund | 2,200,000 | - |
| Total Capital Projects Fund | <u>2,200,000</u> | <u>-</u> |
| Internal service fund | | |
| General fund | 300,000 | - |
| Total Internal Service Fund | <u>300,000</u> | <u>-</u> |
| Total | <u>\$ 2,500,000</u> | <u>\$ 2,500,000</u> |

Transfers from the general and debt service funds to the capital projects fund are used to help pay for capital improvements that are spent out of the capital projects fund. Transfers from the general fund to the internal service fund are used to help pay for future insurance claims for workers compensation.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. Although the District does not anticipate that it will have any arbitrage liability, it

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with five years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic cost of living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in Plan Description above.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a state contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

| | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|
| Member | 6.7% | 7.2% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| Employer # 1366 - 2015 Employer Contributions | | \$1,908,814 |
| Employer # 1366 - 2015 Member Contributions | | \$1,660,613 |
| Employer # 1366 - 2015 NECE On-behalf Contributions | | \$3,482,046 |

Contributors to the plan include members, employers, and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools, and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the GAA.

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities, or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general or local funds.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees; and 100 percent of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|-----------------------------|
| Valuation date | August 31, 2015 |
| Actuarial cost method | Individual entry age normal |
| Asset valuation method | Market value |
| Single discount rate | 8.0% |
| Long-term expected investment rate of return | 8.0% |
| Inflation | 2.5% |
| Salary increases including inflation | 3.5% to 9.5% |
| Payroll growth rate | 2.5% |
| Benefit changes during the year | None |
| Ad hoc post-employment benefit changes | None |

The actuarial methods and assumptions are primarily based on a study of actual experience for the four-year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was eight percent. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is eight percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2015 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2015

| | Target Allocation | Long-Term Expected Geometric Real Rate of Return | Expected Contribution to Long-Term Portfolio Returns * |
|-------------------------------|------------------------------|---|---|
| Global Equity | | | |
| U.S. | 18.0% | 4.6% | 1.0% |
| Non-U.S. Developed | 13.0% | 5.1% | 0.8% |
| Emerging Markets | 9.0% | 5.9% | 0.7% |
| Directional Hedge Funds | 4.0% | 3.2% | 0.1% |
| Private Equity | 13.0% | 7.0% | 1.1% |
| Stable Value | | | |
| U.S. Treasuries | 11.0% | 0.7% | 0.1% |
| Absolute Returns | 0.0% | 1.8% | 0.0% |
| Hedge Funds (Stable Value) | 4.0% | 3.0% | 0.1% |
| Cash | 1.0% | -0.2% | 0.0% |
| Real Return | | | |
| Global Inflation-Linked Bonds | 3.0% | 0.9% | 0.0% |
| Real Assets | 16.0% | 5.1% | 1.1% |
| Energy & Natural Resources | 3.0% | 6.6% | 0.2% |
| Commodities | 0.0% | 1.2% | 0.0% |
| Risk Parity | | | |
| Risk Parity | 5.0% | 6.7% | 0.3% |
| Inflation Expectation | 0.0% | | 2.2% |
| Alpha | 0.0% | | 1.0% |
| Total | 100.0% | | 8.7% |

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was one percent less than and one percent greater than the discount rate that was used (8.0%) in measuring the 2014 net pension liability.

| | 1% Decrease in Discount Rate (7%) | Discount Rate (8%) | 1% Increase in Discount Rate (9%) |
|---|---|-----------------------|---|
| District's proportionate share of the net pension liability | \$ 18,204,650 | \$ 10,187,615 | \$ 4,192,366 |

Pension Liabilities, Pension Expense, and Deferred Outflows/ Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$22,787,237 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District was as follows:

| | |
|--|----------------------|
| District's proportionate share of the collective net pension liability | \$ (22,787,237) |
| State's proportionate share that is associated with the District | 41,556,031 |
| Total | <u>\$ 18,768,794</u> |

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.000644642 percent which was a decrease of 0.000760058 percent from its proportion measured as of August 31, 2014. The change in proportion was immaterial and, therefore, disregarded this year.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities and, therefore, these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2014, the District recognized pension expense of \$ 5,921,066 and revenue of \$5,921,066 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual economic experience | \$ 131,033 | \$ (875,734) |
| Changes in actuarial assumptions | 550,735 | (812,949) |
| Difference between projected and actual investment earnings | 5,611,989 | (2,335,313) |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 6,011,378 | (2,220) |
| Contributions paid to TRS subsequent to the measurement date | 2,142,479 | - |
| | <u>\$ 14,447,614</u> | <u>\$ (4,026,216)</u> |

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended August 31: | Pension Expense |
|--------------------------|---------------------|
| 2017 | \$ 1,494,404 |
| 2018 | 1,494,404 |
| 2019 | 1,494,404 |
| 2020 | 2,272,842 |
| 2021 | 861,674 |
| Thereafter | 661,190 |
| Total | <u>\$ 8,278,918</u> |

D. Retiree Health Care Plan

Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.00 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2016, 2015, and 2014. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$28,892, \$26,117, and \$24,985, respectively; the active member contributions were \$467,052, \$433,298, and \$409,040, respectively; and the District's

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

contributions were \$395,198, \$366,637, and \$346,110, respectively; which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$215,323, \$199,533, and \$171,582, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$275 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2015 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2016, employees of the District were covered by a workers' compensation plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The contract between the District and the third-party administrator, Creative Risk Funding (CRF), acting on behalf of the self-funded pool, is renewable on September 1 and terms, as well as costs of coverage, are included in the contractual provisions.

In accordance with State statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Safety National Casualty Corporation, a commercial insurer licensed or eligible to do business in the State of Texas in accordance with the Texas Insurance Code. The specific retention is \$350,000 and the aggregate limit is \$1,000,000. The aggregate stop loss coverage is \$7,902,032. According to CRF, the unfunded claim benefit obligation included \$279,979 in claims that were unpaid and \$195,916 in estimated claims incurred, but not reported. Other school districts contributed to the self-funded pool which was operated under the contractual provisions of Article 4413(32c), Interlocal Cooperation Act.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims which have been incurred but not reported based on historical experience.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below.

| | Fiscal Year | |
|---|-------------------|-------------------|
| | 2016 | 2015 |
| Claims liability at beginning of year | \$ 214,204 | \$ 211,135 |
| Current year claims and estimated changes | 2,458,489 | 2,153,462 |
| Claims payments | (2,392,714) | (2,150,393) |
| Claims liability at year end | <u>\$ 279,979</u> | <u>\$ 214,204</u> |

G. Unemployment Compensation

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the unemployment compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Shared Services Arrangements

Conroe Regional Day School for the Deaf

The District participates in a shared service arrangement (SSA) for the disability condition of auditory impairment under authority of Section 29.007 of the Texas Education Code and Section 791.001 et seq., of the Texas Government Code as Conroe Regional Day School Program for the Deaf. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Conroe Regional Day School for the Deaf, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA and is reporting \$71,500 as expenditures incurred on behalf of the District.

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REQUIRED SUPPLEMENTARY INFORMATION

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2016

| Data Control Codes | | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|--------------------------|---|----------------------|----------------------|----------------------|---|
| | | Original | Final | | |
| | Revenues | | | | |
| 5700 | Local and intermediate sources | \$ 52,164,062 | \$ 52,164,062 | \$ 52,620,677 | \$ 456,615 |
| 5800 | State program revenues | 45,280,393 | 46,780,393 | 48,966,268 | 2,185,875 |
| 5900 | Federal program revenues | 1,050,000 | 1,050,000 | 1,222,542 | 172,542 |
| 5020 | Total Revenues | <u>98,494,455</u> | <u>99,994,455</u> | <u>102,809,487</u> | <u>2,815,032</u> |
| | Expenditures | | | | |
| | Current: | | | | |
| 0011 | Instruction | 59,747,240 | 60,082,240 | 59,499,179 | 583,061 |
| 0012 | Instructional resources and media services | 932,032 | 932,032 | 889,011 | 43,021 |
| 0013 | Curriculum and instructional staff development | 778,628 | 943,628 | 872,197 | 71,431 |
| 0021 | Instructional leadership | 986,018 | 1,006,018 | 985,499 | 20,519 |
| 0023 | School leadership | 5,466,766 | 5,466,766 | 5,427,821 | 38,945 |
| 0031 | Guidance, counseling and evaluation services | 3,334,378 | 3,334,378 | 3,286,668 | 47,710 |
| 0033 | Health services | 1,001,503 | 1,001,503 | 985,222 | 16,281 |
| 0034 | Student (pupil) transportation | 6,387,295 | 6,762,295 | 6,317,630 | 444,665 |
| 0036 | Extracurricular activities | 2,229,550 | 2,334,550 | 2,331,528 | 3,022 |
| 0041 | General administration | 3,001,622 | 3,001,622 | 2,944,467 | 57,155 |
| 0051 | Plant maintenance and operations | 11,462,941 | 11,837,941 | 11,715,101 | 122,840 |
| 0052 | Security and monitoring services | 724,500 | 724,500 | 610,464 | 114,036 |
| 0053 | Data processing services | 2,441,982 | 2,566,982 | 2,553,064 | 13,918 |
| 6030 | Total Expenditures | <u>98,494,455</u> | <u>99,994,455</u> | <u>98,417,851</u> | <u>1,576,604</u> |
| 1100 | Excess of Revenues | | | | |
| 1100 | Over Expenditures | <u>-</u> | <u>-</u> | <u>4,391,636</u> | <u>4,391,636</u> |
| | Other Financing Sources (Uses) | | | | |
| 8911 | Transfers (out) | <u>-</u> | <u>(2,500,000)</u> | <u>(2,500,000)</u> | <u>-</u> |
| 7080 | Total Other Financing (Uses) | <u>-</u> | <u>(2,500,000)</u> | <u>(2,500,000)</u> | <u>2,500,000</u> |
| 1200 | Net Change in Fund Balance | - | (2,500,000) | 1,891,636 | 6,891,636 |
| 0100 | Beginning fund balance | 25,265,824 | 25,265,824 | 26,331,584 | (1,065,760) |
| 3000 | Ending Fund Balance | <u>\$ 25,265,824</u> | <u>\$ 22,765,824</u> | <u>\$ 28,223,220</u> | <u>\$ 5,825,876</u> |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
For the Year Ended August 31, 2016

| | Measurement Year* | |
|---|----------------------|----------------------|
| | 2016 | 2015 |
| District's proportion of the net pension liability (asset) | 0.0644642% | 0.0381396% |
| District's proportionate share of the net pension liability (asset) | \$ 22,787,237 | \$ 10,187,615 |
| State's proportionate share of the net pension liability (asset) associated with the District | 41,556,031 | 35,623,679 |
| Total | <u>\$ 64,343,268</u> | <u>\$ 45,811,294</u> |
| District's covered employee payroll** | \$ 66,661,323 | \$ 62,929,170 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 34.18% | 16.19% |
| Plan fiduciary net position as a percentage of the total pension liability | 78.43% | 83.25% |

* Only two years' worth of information is currently available.

Notes to Required Supplementary Information:

Changes in Assumptions: See notes to the financial statements (Defined Benefit Pension Plan, Teacher Retirement System disclosure) for changes.

Changes in Benefits: There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)

For the Year Ended August 31, 2015

| | Fiscal Year* | | |
|--|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 |
| Contractually required contribution | \$ 2,142,479 | \$ 1,095,709 | \$ 966,945 |
| Contributions in relations to the contractually required contribution | 2,142,479 | 1,095,709 | 966,945 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| District's coveredemployee payroll | \$ 71,854,210 | \$ 66,661,323 | \$ 62,929,170 |
| Contributions as a percentage of covered employee payroll | 2.98% | 1.64% | 1.54% |

* Only three years' worth of information is currently available.

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***OTHER SUPPLEMENTARY
INFORMATION***

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1

August 31, 2016

| | | 211 | 224 | 225 | 240 |
|----------------------|--|------------------------|-------------------|---------------------|--|
| Data Control Codes | | ESEA Title 1 Part A | IDEA B Formula | IDEA B Preschool | National School Breakfast and Lunch Program |
| <u>Assets</u> | | | | | |
| 1110 | Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 977,099 |
| 1240 | Due from other governments | - | - | - | - |
| 1410 | Prepaid items | - | - | - | 3,475 |
| 1000 | Total Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 980,574</u> |
| <u>Liabilities</u> | | | | | |
| 2110 | Accounts payable | \$ - | \$ - | \$ - | \$ - |
| 2160 | Accrued wages payable | - | - | - | - |
| 2170 | Due to other funds | - | - | - | - |
| 2180 | Due to other governments | - | - | - | - |
| 2200 | Accrued expenses | - | - | - | - |
| 2300 | Unearned revenue | - | - | - | - |
| 2000 | Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>Fund Balances</u> | | | | | |
| Nonspendable: | | | | | |
| 3430 | Prepaid items | - | - | - | 3,475 |
| Restricted: | | | | | |
| 3450 | Federal/state funds grant restrictions | - | - | - | 977,099 |
| 3490 | Other restrictions of fund balance | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>980,574</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 980,574</u> |

| 244 | 255 | 263 | 289 | 385 | 392 |
|--|-------------------------|--|-------------------------|---|--|
| Career and Technical Basic Grant | ESEA Title II Part A | Title III Part A English Language | Summer School LEP | State Supplemental Visually Impaired | Non Educational Community Based Support |
| \$ - | \$ - | \$ - | \$ 17,758 | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,758</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>17,758</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>17,758</u> | <u>-</u> | <u>-</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 17,758</u> | <u>\$ -</u> | <u>\$ -</u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1

August 31, 2016

| | | 397 | 404 | 410 | 414 |
|--------------------------|--|-------------------------------------|----------------------------------|---------------------|-------------------------------|
| Data Control Codes | | Advanced Placement Incentives | Student Success Initiative | State Textbook | Texas Reading Incentive |
| <u>Assets</u> | | | | | |
| 1110 | Cash and cash equivalents | \$ 9,900 | \$ - | \$ 1,080,897 | \$ 189 |
| 1240 | Due from other governments | - | 3,991 | - | - |
| 1410 | Prepaid items | - | - | - | - |
| 1000 | Total Assets | <u>\$ 9,900</u> | <u>\$ 3,991</u> | <u>\$ 1,080,897</u> | <u>\$ 189</u> |
| <u>Liabilities</u> | | | | | |
| 2110 | Accounts payable | \$ - | \$ - | \$ - | \$ - |
| 2160 | Accrued wages payable | - | - | - | - |
| 2170 | Due to other funds | - | 3,991 | - | - |
| 2180 | Due to other governments | - | - | - | - |
| 2200 | Accrued expenses | - | - | - | - |
| 2300 | Unearned revenue | - | - | - | - |
| 2000 | Total Liabilities | <u>-</u> | <u>3,991</u> | <u>-</u> | <u>-</u> |
| <u>Fund Balances</u> | | | | | |
| Nonspendable: | | | | | |
| 3430 | Prepaid items | - | - | - | - |
| Restricted: | | | | | |
| 3450 | Federal/state funds grant restrictions | 9,900 | - | 1,080,897 | 189 |
| 3490 | Other restrictions of fund balance | - | - | - | - |
| 3000 | Total Fund Balances | <u>9,900</u> | <u>-</u> | <u>1,080,897</u> | <u>189</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 9,900</u> | <u>\$ 3,991</u> | <u>\$ 1,080,897</u> | <u>\$ 189</u> |

461

| Campus Activity | Total Nonmajor Governmental Funds |
|----------------------------|--|
| \$ 477,455 | \$ 2,563,298 |
| - | 3,991 |
| - | 3,475 |
| <u>\$ 477,455</u> | <u>\$ 2,570,764</u> |
| | |
| \$ - | \$ - |
| - | - |
| - | 3,991 |
| - | - |
| 198,319 | 198,319 |
| - | - |
| <u>198,319</u> | <u>202,310</u> |
| | |
| - | 3,475 |
| - | 2,068,085 |
| 279,136 | 296,894 |
| <u>279,136</u> | <u>2,368,454</u> |
| | |
| <u>\$ 477,455</u> | <u>\$ 2,570,764</u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2

For the Year Ended August 31, 2016

| Data Control Codes | | 211 | 224 | 225 | 240 National School Breakfast and Lunch Program |
|--------------------------|--|------------------------|-------------------|---------------------|---|
| | | ESEA Title 1 Part A | IDEA B Formula | IDEA B Preschool | |
| | Revenues | | | | |
| 5700 | Local, intermediate, and out-of-state | \$ - | \$ - | \$ - | \$ 1,572,566 |
| 5800 | State program revenues | - | - | - | 27,111 |
| 5900 | Federal program revenues | 1,599,546 | 1,746,156 | 20,191 | 3,022,568 |
| 5020 | Total Revenues | <u>1,599,546</u> | <u>1,746,156</u> | <u>20,191</u> | <u>4,622,245</u> |
| | Expenditures | | | | |
| | Current: | | | | |
| 0011 | Instruction | 1,599,546 | 1,231,451 | 20,191 | - |
| 0012 | Instruction resources | | | | |
| 0013 | Curriculum and instructional | | | | |
| 0021 | Instructional leadership | - | 68,532 | - | - |
| 0031 | Guidance, counseling, and | | | | |
| 0031 | evaluation services | - | 446,173 | - | - |
| 0035 | Food services | - | - | - | 4,929,131 |
| 0036 | Extracurricular activities | - | - | - | - |
| | Capital outlay: | | | | |
| 0081 | Facilities acquisition and | | | | |
| 6030 | Total Expenditures | <u>1,599,546</u> | <u>1,746,156</u> | <u>20,191</u> | <u>4,929,131</u> |
| | Excess (Deficiency) of Revenues | | | | |
| | Over (Under) Expenditures | - | - | - | (306,886) |
| 1200 | Net Change in Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>(306,886)</u> |
| 0100 | Beginning fund balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,287,460</u> |
| 3000 | Ending Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 980,574</u> |

| 244 | 255 | 263 | 289 | 385 | 392 |
|--|-------------------------|--|-------------------------|---|--|
| Career and Technical Basic Grant | ESEA Title II Part A | Title III Part A English Language | Summer School LEP | State Supplemental Visually Impaired | Non Educational Community Based Support |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | 6,300 | 8,000 |
| 116,732 | 166,336 | 132,091 | 8,905 | - | - |
| 116,732 | 166,336 | 132,091 | 8,905 | 6,300 | 8,000 |
| 116,732 | 166,336 | 119,091 | - | 6,300 | 8,000 |
| - | - | 13,000 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 116,732 | 166,336 | 132,091 | - | 6,300 | 8,000 |
| - | - | - | 8,905 | - | - |
| - | - | - | 8,905 | - | - |
| - | - | - | 8,853 | - | - |
| \$ - | \$ - | \$ - | \$ 17,758 | \$ - | \$ - |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2016

| | | 397 | 404 | 410 | 414 |
|---------------------------------|---------------------------------------|-------------------------------|----------------------------|----------------|-------------------------|
| Data Control Codes | | Advanced Placement Incentives | Student Success Initiative | State Textbook | Texas Reading Incentive |
| Revenues | | | | | |
| 5700 | Local, intermediate, and out-of-state | \$ - | \$ - | \$ - | \$ - |
| 5800 | State program revenues | 6,750 | - | 1,714,689 | - |
| 5900 | Federal program revenues | - | - | - | - |
| 5020 | Total Revenues | 6,750 | - | 1,714,689 | - |
| Expenditures | | | | | |
| Current: | | | | | |
| 0011 | Instruction | - | - | 655,061 | - |
| 0012 | Instruction resources | | | | |
| 0013 | Curriculum and instructional | | | | |
| 0021 | Instructional leadership | - | - | - | - |
| 0031 | Guidance, counseling, and | | | | |
| 0031 | evaluation services | - | - | - | - |
| 0035 | Food services | - | - | - | - |
| 0036 | Extracurricular activities | - | - | - | - |
| Capital outlay: | | | | | |
| 0081 | Facilities acquisition and | | | | |
| 6030 | Total Expenditures | - | - | 655,061 | - |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | | 6,750 | - | 1,059,628 | - |
| 1200 | Net Change in Fund Balances | 6,750 | - | 1,059,628 | - |
| 0100 | Beginning fund balances | 3,150 | - | 21,269 | 189 |
| 3000 | Ending Fund Balances | \$ 9,900 | \$ - | \$ 1,080,897 | \$ 189 |

| 461 | |
|--------------------|--|
| Campus Activity | Total Nonmajor Governmental Funds |
| \$ 902,455 | \$ 2,475,021 |
| - | 1,762,850 |
| - | 6,812,525 |
| 902,455 | 11,050,396 |
| - | 3,922,708 |
| - | 81,532 |
| - | 446,173 |
| - | 4,929,131 |
| 1,154,499 | 1,154,499 |
| 1,154,499 | 10,534,043 |
| (252,044) | 516,353 |
| (252,044) | 516,353 |
| 531,180 | 1,852,101 |
| \$ 279,136 | \$ 2,368,454 |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-4
For the Year Ended August 31, 2016

| Data Control Codes | | 748 After-School Program | 798 Aquatic Club | 876 MISD Health Plan | 879 Workers' Compensation Insurance |
|-----------------------------------|--|---|---------------------------------|---|--|
| | Operating Revenues: | | | | |
| 5700 | Local and intermediate sources | \$ 30,634 | \$ 441,965 | \$ - | \$ 425,237 |
| 5020 | Total Operating Revenues | <u>30,634</u> | <u>441,965</u> | <u>-</u> | <u>425,237</u> |
| | Operating Expenses: | | | | |
| 6100 | Payroll costs | 171 | 237,625 | - | - |
| 6200 | Professional and contracted services | - | 39,649 | - | 425,237 |
| 6300 | Supplies and materials | 10,888 | 36,742 | - | - |
| 6400 | Other operating costs | - | 106,314 | - | - |
| | Total Operating Expenses | <u>11,059</u> | <u>420,330</u> | <u>-</u> | <u>425,237</u> |
| 1100 | Operating Income | 19,575 | 21,635 | - | - |
| | Other Financing Sources (Uses): | | | | |
| 7915 | Transfers in | <u>300,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 1200 | Changes in Net Position | 319,575 | 21,635 | - | - |
| 0100 | Beginning net position | <u>7,040</u> | <u>153,386</u> | <u>9,474</u> | <u>-</u> |
| 3000 | Ending Net Position | <u>\$ 326,615</u> | <u>\$ 175,021</u> | <u>\$ 9,474</u> | <u>\$ -</u> |

See Notes to Financial Statements.

| Total Internal Service Funds | |
|---|-----------------------|
| \$ | 897,836 |
| | <u>897,836</u> |
| | 237,796 |
| | 464,886 |
| | 47,630 |
| | <u>106,314</u> |
| | <u>856,626</u> |
| | 41,210 |
| | <u>300,000</u> |
| | 341,210 |
| | <u>169,900</u> |
| \$ | <u><u>511,110</u></u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-3

August 31, 2016

| Data Control Codes | | 748 After-School Program | 798 Aquatic Club | 876 MISD Health Plan | 879 Workers' Compensation Insurance |
|--------------------------|---------------------------|--------------------------------|------------------------|-------------------------------|--|
| Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ 326,615 | \$ 175,021 | \$ 9,474 | \$ 214,204 |
| | Total Assets | <u>326,615</u> | <u>175,021</u> | <u>9,474</u> | <u>214,204</u> |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| 2200 | Accrued expenses | - | - | - | 214,204 |
| 2000 | Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>214,204</u> |
| Net Position: | | | | | |
| 3600 | Unrestricted | 326,615 | 175,021 | 9,474 | - |
| 4000 | Total Net Position | <u>\$ 326,615</u> | <u>\$ 175,021</u> | <u>\$ 9,474</u> | <u>\$ -</u> |

See Notes to Financial Statements.

| Total Internal Service Funds | |
|------------------------------------|----------------|
| \$ | 725,314 |
| | <u>725,314</u> |

| | |
|--|----------------|
| | <u>214,204</u> |
| | <u>214,204</u> |

| | |
|----|-----------------------|
| | <u>511,110</u> |
| \$ | <u><u>511,110</u></u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-5

For the Year Ended August 31, 2016

| | 748 | 798 | 876 | 879 |
|--|--------------------------|--------------------------|------------------------|---------------------------------------|
| | After-School Program | Aquatic Club | MISD Health Plan | Workers' Compensation Insurance |
| <u>Cash Flows from Operating Activities</u> | | | | |
| Cash received from customers | \$ 319,575 | \$ 441,965 | \$ - | \$ 425,237 |
| Cash receipts (payments) for quasi-external operating transactions with other funds | - | - | - | (425,237) |
| Cash payments to employees for services | - | (237,625) | - | - |
| Cash payments to other suppliers for goods and services | - | (182,705) | - | - |
| Net Cash Provided by Operating Activities | <u>319,575</u> | <u>21,635</u> | <u>-</u> | <u>-</u> |
| Net increase in Cash and Equivalents | 319,575 | 21,635 | - | - |
| Beginning cash and cash equivalents | <u>7,040</u> | <u>153,386</u> | <u>9,474</u> | <u>214,204</u> |
| Ending Cash and Cash Equivalents | <u><u>\$ 326,615</u></u> | <u><u>\$ 175,021</u></u> | <u><u>\$ 9,474</u></u> | <u><u>\$ 214,204</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Operating income (loss) | \$ 319,575 | \$ 21,635 | \$ - | \$ - |
| Net Cash Provided by Operating Activities | <u><u>\$ 319,575</u></u> | <u><u>\$ 21,635</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

See Notes to Financial Statements.

**Total
Internal
Service Funds**

| | |
|----|-----------------------|
| \$ | 1,186,777 |
| | (425,237) |
| | (237,625) |
| | <u>(182,705)</u> |
| | <u>341,210</u> |
| | 341,210 |
| | <u>384,104</u> |
| \$ | <u><u>725,314</u></u> |

| | |
|----|-----------------------|
| \$ | <u>341,210</u> |
| \$ | <u><u>341,210</u></u> |

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT H-6

For the Year Ended August 31, 2016

| Data Control Codes | | | 865 | 899 | |
|--------------------------|---------------------------|--|---------------------|-------------------------------|--------------------------|
| | | | Student Activity | Magnolia Livestock Show | Total Agency Funds |
| | <u>Assets</u> | | | | |
| 1110 | Cash and cash equivalents | | \$ 671,048 | \$ 48,892 | \$ 719,940 |
| 1000 | Total Assets | | <u>\$ 671,048</u> | <u>\$ 48,892</u> | <u>\$ 719,940</u> |
| | <u>Liabilities</u> | | | | |
| | Current liabilities: | | | | |
| 2190 | Due to student groups | | \$ 671,048 | \$ 48,892 | \$ 719,940 |
| 2000 | Total Liabilities | | <u>\$ 671,048</u> | <u>\$ 48,892</u> | <u>\$ 719,940</u> |

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1

For the Year Ended August 31, 2016

| | 1 | 2 | 3 |
|--------------------|-------------|--------------|----------------------------|
| | Tax Rates | | Net Assessed/ Appraised |
| Last Ten Years | Maintenance | Debt Service | Value For School |
| 2007 and prior | Various | Various | Tax Purposes |
| | | | Various |
| 2008 | \$ 1.3300 | \$ 0.0752 | \$ 2,696,707,610 |
| 2009 | \$ 1.0400 | \$ 0.5590 | \$ 3,116,063,208 |
| 2010 | \$ 1.0400 | \$ 0.3600 | \$ 3,488,756,540 |
| 2011 | \$ 1.0900 | \$ 0.2900 | \$ 3,570,183,714 |
| 2012 | \$ 1.0400 | \$ 0.3595 | \$ 3,669,168,292 |
| 2013 | \$ 1.0400 | \$ 0.3595 | \$ 3,882,191,497 |
| 2014 | \$ 1.0400 | \$ 0.3595 | \$ 4,127,425,795 |
| 2015 | \$ 1.0400 | \$ 0.3595 | \$ 4,448,138,076 |
| 2016 | \$ 1.0400 | \$ 0.3395 | \$ 5,136,608,436 |
| 1000 Totals | | | |

| 10 | 20 | 31 | 32 | 40 | 50 |
|--------------------------------|---------------------------------|-----------------------------------|------------------------------------|---------------------------------|------------------------------|
| Beginning Balance 9/1/15 | Current Year's Total Levy | Maintenance Total Collected | Debt Service Total Collected | Entire Year's Adjustments | Ending Balance 8/31/16 |
| \$ 239,204 | \$ - | \$ 5,678 | \$ 2,101 | \$ 30,066 | \$ 201,359 |
| 52,416 | - | 1,863 | 1,001 | 643 | 48,909 |
| 73,691 | - | 5,232 | 1,811 | 771 | 65,877 |
| 88,255 | - | 7,023 | 1,868 | 739 | 78,625 |
| 112,352 | - | 21,165 | 7,316 | (16,334) | 100,205 |
| 131,533 | - | 32,941 | 11,387 | (23,548) | 110,753 |
| 207,221 | - | 46,679 | 16,136 | (27,396) | 171,803 |
| 317,464 | - | 76,863 | 26,570 | (6,588) | 220,619 |
| 687,662 | - | 217,091 | 72,955 | 88,217 | 309,400 |
| - | 68,227,561 | 50,562,926 | 16,505,878 | (65,273) | 1,224,030 |
| <u>\$ 1,909,799</u> | <u>\$ 68,227,561</u> | <u>\$ 50,977,461</u> | <u>\$ 16,647,024</u> | <u>\$ (18,704)</u> | <u>\$ 2,531,579</u> |

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-2
For the Year Ended August 31, 2016

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------------|-----------------------------------|--|---------------------------------------|-------------------|---|
| <u>Revenues</u> | | | | | |
| 5700 | Local and intermediate sources | \$ 2,075,497 | \$ 2,075,497 | \$ 1,572,566 | \$ (502,931) |
| 5800 | State program revenues | 45,897 | 45,897 | 27,111 | (18,786) |
| 5900 | Federal program revenues | 2,604,971 | 2,604,971 | 3,022,568 | 417,597 |
| 5020 | Total Revenues | 4,726,365 | 4,726,365 | 4,622,245 | (104,120) |
| <u>Expenditures</u> | | | | | |
| Current: | | | | | |
| 0035 | Food services | 4,726,365 | 5,126,365 | 4,929,131 | 197,234 |
| 6030 | Total Expenditures | 4,726,365 | 5,126,365 | 4,929,131 | 197,234 |
| 1200 | Net Change in Fund Balance | - | (400,000) | (306,886) | 93,114 |
| 0100 | Beginning fund balance | 1,287,460 | 1,287,460 | 1,287,460 | - |
| 3000 | Ending Fund Balance | \$ 1,287,460 | \$ 887,460 | \$ 980,574 | \$ 93,114 |

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND - EXHIBIT J-3
For the Year Ended August 31, 2016

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------------|--|--|---------------------------------------|---------------------|---|
| | <u>Revenues</u> | | | | |
| 5700 | Local and intermediate sources | \$ 14,171,963 | \$ 16,781,766 | \$ 16,885,395 | \$ 103,629 |
| 5800 | State program revenues | 400,000 | 85,000 | 324,039 | 239,039 |
| 5020 | Total Revenues | <u>14,571,963</u> | <u>16,866,766</u> | <u>17,209,434</u> | <u>342,668</u> |
| | <u>Expenditures</u> | | | | |
| | Debt service: | | | | |
| 0071 | Principal on long-term debt | 7,550,000 | 9,005,428 | 8,275,000 | 730,428 |
| 0072 | Interest on long-term debt | 7,016,963 | 7,771,338 | 7,822,765 | (51,427) |
| 0073 | Bond issuance costs and fees | 5,000 | 90,000 | 80,984 | 9,016 |
| 6030 | Total Expenditures | <u>14,571,963</u> | <u>16,866,766</u> | <u>16,178,749</u> | <u>688,017</u> |
| 1100 | Excess of Revenues | | | | |
| 1100 | Over Expenditures | <u>-</u> | <u>-</u> | <u>1,030,685</u> | <u>1,030,685</u> |
| | Other Financing Sources (Uses): | | | | |
| 7911 | Bonds issued | - | - | 8,180,000 | 8,180,000 |
| 7916 | Bond premium | - | - | 1,188,174 | 1,188,174 |
| 8949 | Payment to bond escrow agent | - | - | (9,299,291) | (9,299,291) |
| 7080 | Total Other Financing | | | | |
| 7080 | (Uses) | <u>-</u> | <u>-</u> | <u>68,883</u> | <u>68,883</u> |
| 1200 | Net Change in Fund Balance | - | - | 1,099,568 | 1,099,568 |
| 0100 | Beginning fund balance | <u>5,471,183</u> | <u>5,471,183</u> | <u>5,471,183</u> | - |
| 3000 | Ending Fund Balance | <u>\$ 5,471,183</u> | <u>\$ 5,471,183</u> | <u>\$ 6,570,751</u> | <u>\$ 1,099,568</u> |

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COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 30, 2016

To the Board of Trustees of the
Magnolia Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Magnolia Independent School District (the "District"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Compliance and Other Matters

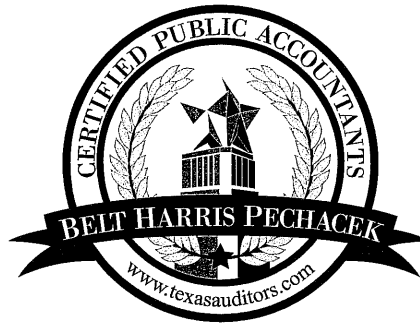
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

November 30, 2016,

To the Board of Trustees of the
Magnolia Independent School District:

Report on Compliance for Each Major Federal Program

We have audited the Magnolia Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Governmental
Audit Quality Center

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended August 31, 2016

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program Cluster</u> |
|----------------------------|--|
| 10.553, 10.555, and 10.565 | Child Nutrition Cluster |

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AWARDS AUDIT

None Noted

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2016

| (1) | (2) | (2A) | (3) |
|--|---------------------------|---|-------------------------|
| Federal Grantor/Pass Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <i>Passed Through State Department of Education</i> | | | |
| ESEA Title I, Part A | 84.010 | 16610101170906 | \$ 1,599,546 |
| IDEA B, Formula Grant* | 84.027 | 166600011709066000 | 1,746,156 |
| IDEA B - Preschool* | 84.173 | 166610011709066000 | 20,191 |
| Title III, Part A | 84.365 | 16671001170906 | 132,091 |
| Career and Technical, Basic Grant | 84.048 | 16420006170906 | 116,732 |
| ESEA Title II, Part A, Teacher & Principal | 84.367 | 16694501170906 | 166,336 |
| Summer School LEP | 84.374 | 69551202 | 8,905 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | 3,789,957 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <i>Passed Through State Department of Education</i> | | | |
| School Breakfast Programs | 10.553 | 71401301 | 555,134 |
| National School Lunch | 10.555 | 71401301 | 2,134,524 |
| USDA Commodities | 10.565 | 3001401 | 332,910 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | 3,022,568 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 6,812,525 |

* Indicates clustered program under OMB Circular A-133 Compliance Supplement
The accompanying notes are an integral part of this schedule.

| | |
|---------------------------------------|---------------------|
| Federal Revenue per SEFA | \$ 6,812,525 |
| Medicaid Reimbursement - General Fund | 1,222,542 |
| C-2 Federal Revenue | <u>\$ 8,035,067</u> |

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2016

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The District has elected not to use the De Minimis Indirect Cost Rate.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2016

| <u>Data Control Codes</u> | <u>Responses</u> |
|--|---------------------------|
| SF2 Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any debt agreement at fiscal year? | No |
| SF4 Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole? | Yes |
| SF5 Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? | No |
| SF6 Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? | No |
| SF7 Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? | Yes |
| SF8 Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship? | Yes |
| SF10 Total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end? | <u>\$ 56,903</u> |
| SF11 Net pension assets (1920) at fiscal year end | <u>\$ -</u> |
| SF12 Net pension liabilities (2540) at fiscal year end | <u>\$ 22,787,237</u> |
| SF13 Pension expense (6147) at fiscal year end | <u>\$ 3,293,343</u> |

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